

**FULL COMMITTEE MARKUP ON LEGISLATION
AFFECTING SBA'S TRADE AND MICROLOAN
PROGRAMS: H.R. 2992 AND H.R. 3020**

**COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF
REPRESENTATIVES**

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**FULL COMMITTEE MARKUP ON LEGISLATION
AFFECTING SBA TRADE AND MICROLOAN
PROGRAMS: H.R. 2992 AND H.R. 3020**

Thursday, July 19, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:03 a.m., in Room 2360, Rayburn House Office Building, Hon. Nydia M. Velázquez [Chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Shuler, González, Larsen, Michaud, Cuellar, Lipinski, Altmire, Braley, Clarke, Johnson, Sestak, Chabot, Bartlett, Akin, Davis, Fallin, Buchanan, and Jordan.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

Chairwoman VELÁZQUEZ. Good morning, everyone. I call this session to order. And let me just say that the first order of business this morning was supposed to be voting on a resolution to issue a subpoena to the Veterans Affairs Department. But as of 5 minutes ago, we are in possession of a letter confirming the attendance of Robert Henke, Assistant Secretary for Management of the Department of Veterans Affairs, as a witness for the Committee's hearing on August 2nd, 2007. And I would like to thank Ranking Member Chabot and his staff, because I know that you were in conversation with the Department of Veterans Affairs. With that, I am pleased to call this morning's markup to order. Today's markup addresses some very important issues for small firms, SBA's International Trade programs and its Microloan Program. These programs have proved themselves to be beneficial for small businesses. International trade is a key part of our economic future and competition in the global marketplace will only increase in the years to come. Small businesses that generate and develop new products have shown that they can lead the way in building entire industries, if they are provided with basic assistance at the start.

To a limited degree, SBA's trade initiatives have helped, but more needs to be done. Another equally important role for the SBA is to provide direction and resources for those who are looking to start and grow their firms. In cases where there is reason to believe an entrepreneur could succeed, but lacks the credit history or training, the Microloan Program has found a way to turn these aspiring business owners into employers. To accomplish these missions, the Agency has specific programs that have been successful,

but they have not been modernized to keep up with the new economic challenges.

With that in mind, we are marking up two bills that address some small, but frustrating barriers that have prevented small businesses from fully utilizing these SBA programs. By doing so, we will give entrepreneurs the tools they need to succeed, without unduly burdening taxpayers. The bills we consider today increase the capacity of the SBA to provide specific, useful solutions to small businesses that want to start up or have become sophisticated enough that they want to compete overseas. What these bills have in common is that they both address the need to update the SBA's programs, many of which have helped build a solid foundation for our future economic security.

The changes we will make will help small firms overcome the current challenges that their businesses face. Again, I want to give credit to all my colleagues on both sides of the aisle for working together to address these issues. Small businesses deserve our effort to listen their problems and remove barriers. Such cooperation is good for all of us, because it is these businesses that are the most innovative, that create new jobs and produce half our income. And they deserve our best efforts. The progress we have made in addressing the needs of small businesses and in moving a significant number of bills introduced by both sides of the aisle is a testament to the Committee's hard work and cooperation. These firms continue to broadly support our work and do so again today. I would like to specifically thank our ranking member, Mr. Chabot and his staff for the Microloan Amendments and Modernization Act that he introduced, and which I strongly support.

Also, thanks to Mr. Sestak, our vice chairman, who, with Mr. Hall from New York, has introduced The SBA Trade Programs Act of 2007. But as significant as the work we have done to date is, there is still more to do. I look forward to our continuing collaboration to do what best serves our Nation's small businesses.

Chairwoman VELÁZQUEZ. I would now like to yield to Ranking Member Chabot for his opening remarks.

OPENING STATEMENT OF MR. CHABOT

Mr. CHABOT. Thank you very much, Madam Chair, and thank you for holding this markup. As I mentioned previously, this Committee had not carefully reexamined the Small Business Administration's Microloan and international trade programs in some time. Ensuring that America's exporters and smallest businesses have the resources that they need from the SBA constitutes a critical function of this Committee. And I would like to thank you for holding this markup and much of the work that was done in making this possible.

Mr. CHABOT. So thank you for that. The first bill, as you mentioned, that we will be marking up here today, let me get that straight, my notes straight here, is H.R. 2992. The bill recognizes the need for the SBA to increase its focus on the vital role that small businesses are playing to reduce America's trade deficit. There is no doubt that small businesses, especially manufacturers

and providers of services, are often overlooked when it comes to the development and implementation of trade policy.

By requiring the SBA to expand its trade outreach initiatives, H.R. 2992 will assist America's small businesses to increase their competitiveness in the global economy. I also understand that the chairwoman has an amendment in the nature of a substitute to this bill that I fully support, because it ensures that the administrator is properly coordinating activities with other agencies that have trade responsibilities, and avoids even the possibility of running afoul of our obligation under international trade agreements. I would like to thank you in your efforts to work in a bipartisan manner, as I mentioned before.

And the second bill, which had previously been the first bill, but we reversed the order, the second bill that we are considering today is H.R. 3020, the Microloan Amendments and Modernization Act. A number of us introduced this bill, myself, along with the Chair and Representatives Clarke and Cuellar and Lipinski, to make the Microloan Program more efficient. Given the testimony that the Committee had heard, the Microloan Program certainly represents value for the money. The Microloan Program is a far more cost-effective mechanism, in my view, for producing jobs than, for example, building roads at taxpayer expense in the Tongas National Forest. Although modest in size, the bill accomplishes a great deal for the Microloan borrowers and intermediaries, the institutions that provide the loans and technical assistance. Microlenders exist mainly because normal commercial lending institutions do not provide access to credit for those who are highly credit risky.

One way to improve that is to have borrowers' histories pass along to the credit bureaus. Although I don't wish to offer an amendment at this time, I think it may be useful to consider, as the bill moves forward, to designate an intermediary in each Federal region to handle the transmission of payment history to the credit bureaus. The bill also enables the intermediaries to determine the length of credit that will be made available to the borrowers. Given the expertise of the intermediaries, it makes abundant sense for the determinations on the length of loans to rest with the intermediaries and borrowers.

I would emphasize that this change has no impact on the loan obligations of the intermediaries to the SBA, so the change involves no risk to the Federal Treasury. H.R. 3020 also raises the level of the average loan size in an intermediary's portfolio from \$7,500 to \$10,000. This level has not been changed since 1992, and an adjustment is I believe appropriate to take into account inflation in the intervening 15 years. The SBA rightly focuses on the number of small businesses that receive help from its entrepreneurial training partners. However, ensuring that only those individuals with the right aptitude start small business is as important as the provision of technical assistance to businesses that have been in existence for years. The bill recognizes the importance of this training, and increases the amount of pre-loan training that intermediaries may provide. H.R. 3020 also provides for an increase in the amount of technical assistance training that intermediaries can contract for from other sources. As the Committee heard in testimony from Professor Servin of the New School University, this will enable inter-

mediaries to focus on those services that they are best able to perform. Finally, the Committee heard from two different witnesses that the cap on interest rates should be removed. We also heard that a rise in interest rates will enable intermediaries to recoup more of their costs, thereby reducing the amount of funds that they must raise from other sources.

I would ask the chairwoman to work with me, as the bill moves through the legislative process, to ensure that intermediaries have maximum flexibility to operate their loan programs with the elimination of the interest rate cap. And I know that the chairwoman again will be introducing an amendment in the nature of a substitute on this bill that simply adds the statutory authorization for the PRIME program to the Small Business Act, and solely within the jurisdiction of the Committee. I fully support this amendment of the Chair's as well in the nature of a substitute, and I urge my colleagues to support both these bills. And I yield back the balance of my time.

Chairwoman VELÁZQUEZ. Thank you. And I will take that as an opening remark and explanation of your bill. Okay. So are there any other members that wish to be recognized for the purpose of opening remarks? Well, the first order of business is to consider the SBA Trade Programs Act of 2007, H.R. 2992. Before recognizing the sponsor of this legislation, Mr. Sestak, let me commend him and the other sponsor, Mr. Hall of New York, for their timely bill. To overcome small exporter obstacles, this proposal increases trade finance resources and the size of international trade loans through the enactment of the Trade Adjustment Assistance Program, businesses dislocated due to globalization will be better able to draw on assistance that will help ensure their competitiveness.

As trade policies are negotiated and implemented, the legislation requires the agency to work with Federal and international organizations to represent small business interests. Finally, it requires an annual trade strategy, outlining the agency's efforts to boost small businesses' shares in both domestic and foreign markets. By enacting this bill, the SBA will be more prepared to assist the business community in the international marketplace. And definitely with this bill, the small business community, and mainly small business exporters and importers, will have a voice at the table. So with that, I urge support of this legislation, and I recognize Mr. Sestak for a statement on explanation of H.R. 2992.

OPENING STATEMENT OF MR. SESTAK

Mr. SESTAK. Thank you, Madam Chair. I appreciate your help, and Ranking Member Chabot. I appreciate the opportunity to speak about The SBA Trade Programs Act of 2007, and am proud to join my colleague, Mr. Hall, as an original cosponsor. This recent May, I actually held an economic summit in my district. It was the second of three. The third will be next Monday with you, Madam Chair. It was done in partnership with the U.S. Export Assistance Center in Philadelphia. The day's program was actually aimed at providing business owners more information at the Federal, the State and the local level with the services and resources that are available to them. In particular, however, we focused on how to

help local small businesses export their products to foreign markets, as well as to how firms interested in expanding their businesses might obtain better trade financing. I was taken by the number of small business owners that were interested in expanding their business in overseas for two reasons. One, we have lost 607 small businesses in the last 3 years in my district, and so they are looking for opportunities. And second, it is probably no surprise to others here, but 97 percent of all exporters are small business. And they have contributed greatly to the growth of exports. And I would like to do the same for my district and throughout the Nation, to have it be enhanced even more. There is a lot of promise in the economic impact of trade among these small businesses. I want to give just one example in my hometown. With the help of the Philadelphia Export Assistance Center, Nielsen-Kellerman, a small business that designs and manufactures waterproof electronics for use in the rowing industry worked with trade specialists to expand globally, and since 2001 has actually signed nine dealer agreements in Germany, and successfully sold its products throughout the world, from Southeast Asia to Central America and the Middle East. The firm continues to use the Export Assistance Center for business counseling and guidance to further expand.

However, I saw and heard during my district's economic summit that small exporters, small business exporters also face numerous challenges that were already laid out well, such as higher transaction costs. And they assumed greater risk than larger exporters and experienced burdensome custom requirements which limit their access to these foreign markets and actually impede small firms from maximizing their full potential. That is why I am a strong supporter, and ask everyone here to also be one, of The SBA Trade Programs Act of 2007. I believe that this bill will help, among many other myriad of programs to enhance the global competitiveness of American small business exporters. The legislation not only addresses the need to focus on assisting in overseas trading by calling for an annual trade strategy to increase exports, but it also enhances the level of export assistance by increasing access to capital, which at times is all small businesses really want, and establishing programs for trade adjustment assistance to help small firms adjust to the ever-changing dynamic global conditions and demands we see every day.

Therefore, I believe that this Trade Act, the SBA Trade Act, is a comprehensive legislation that is critical to the economic security of our Nation and its future. And I urge everyone, all of my colleagues to support it. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Are there any other members that wish to be recognized on the SBA Trade Programs Act of 2007? The Committee now moves to consideration of the bill, H.R. 2992. The clerk will report the title of the bill.

The CLERK. H.R. 2992, a bill to amend the Small Business Act to improve trade programs, and for other purposes.

Chairwoman VELÁZQUEZ. I ask unanimous consent that the Chairwoman's amendment in the nature of a substitute for H.R.

2992 be adopted, and that it be used as the base text for purposes of any further amendments. Hearing no objection to the request, the request is agreed to, and the amendment in the nature of the substitute is adopted and will serve as the base text during our consideration of other amendments. I ask unanimous consent that the bill in its entirety be open for amendments at this time. Does any member seek recognition for the purpose of offering an amendment?

Mr. LARSEN. Madam Chairwoman, I have an amendment at the desk.

Chairwoman VELÁZQUEZ. I recognize the gentleman from Washington.

Mr. LARSEN. As the amendment is distributed, if it is distributed, I first want to thank you for holding the markup on this bill, and thank Mr. Sestak and Mr. Hall for their efforts in putting this together. This legislation takes a strong step in developing an increased role in the SBA's Office of International Trade. I want to thank you for including a provision in the manager's amendment as well that gives direction to OIT to develop a specific strategy to increase small business export opportunities to the Asia-Pacific region. In 2006, 60 percent of U.S. exports went to countries that are part of the Asia-Pacific Economic Cooperation forum, or APEC. That number is growing. Japan, China, South Korea and Singapore currently rank in the top 10 of countries that we export to. I don't believe that any overseas country presents more of a long term export opportunity for small businesses than China. With 1.3 billion people and rapidly growing middle class, we need to help our small businesses get their foot in the door of this market.

China, certainly, has its foot in our door. Now with regards to the amendment itself, I appreciate the opportunity to present this amendment. And after speaking briefly on it, I will ask for unanimous consent to withdraw the amendment.

Chairwoman VELÁZQUEZ. Without objection, the amendment is withdrawn.

Mr. LARSEN. If I may speak on it first.

Chairwoman VELÁZQUEZ. Sure.

Mr. LARSEN. Thanks. Nice try, though. This amendment is for grants for Chinese business education programs. So building on a theme I touched on, this amendment would create a Chinese business education grant program run by the SBA. My intention is to find ways outside the traditional box of the SBA to increase opportunities for small business owners. My amendment would authorize a grant program under the SBA to help graduate, undergraduate, and community colleges to set up to China market courses. These courses would be designed to teach students and professionals how to do business in the Chinese economy.

This would provide more opportunities for local entrepreneurs to take a course on the Chinese market, and give future small business owners the learning environment to understand the technical process for making small business exports work in China.

I believe the SBA is uniquely suited to distribute the grants, as they understand what types of curriculum would be on the right track and what types of curriculum would not be on the right

track. So with that, Madam Chair, I appreciate the opportunity to offer the amendment, but I do ask unanimous consent to withdraw the amendment.

Chairwoman VELÁZQUEZ. Without objection.

Mr. LARSEN. Thank you very much. And with that I yield back the balance of my time.

Chairwoman VELÁZQUEZ. Thank you. I want to thank the gentleman for raising this important matter and with working with the Committee on this issue. Increasing exports to the Asia-Pacific regions of the world is essential to reducing our nation's trade deficit. And SBA can play an important role in assisting small firms gain access to this emerging market. And I believe that the language you crafted and that we added to the legislation will strengthen this effort. So I look forward to working with the gentleman on this issue, and I thank you for your work. And I now ask if there is any other member who wished to be recognized for the purpose of offering an amendment? Seeing no further amendments, the question is on passing and reporting the bill H.R. 2992 as amended. All those in favor say aye. Aye. All those opposed say, no. The ayes have it, and H.R. 2992 as amended is adopted and ordered reported.

So now we are going to move to H.R. 3020, The Microloan Amendment and Organization Act, introduced by the Committee's Ranking Member, Mr. Chabot. And he explained basically the bill. If you want to add some other comments.

Mr. CHABOT. Yeah. If the gentlelady would yield, I think we pretty much in-depth explained in our opening what it was, so I think it would be superfluous.

Chairwoman VELÁZQUEZ. There is one issue I would like to mention, and that is I will be offering an amendment in the nature of a substitute that will add into the bill the transfer of the PRIME program into the Small Business Act. The PRIME program has been administered by the SBA since its inception, and it is best for our oversight purposes that it be placed in the Small Business Act.

Chairwoman VELÁZQUEZ. Mr. Chabot has agreed to this amendment, and the Financial Services Committee has agreed to this transfer. Again, I commend Mr. Chabot for this bill, and I strongly urge support of this legislation. Are there any other members that wish to be recognized? The Committee now moves to the consideration of the bill, H.R. 3020. The clerk will report the title of the bill.

The CLERK. H.R. 3020, a bill to amend the Small Business Act to improve the Microloan Program, and for other purposes.

Chairwoman VELÁZQUEZ. I ask unanimous consent that the Chairwoman's amendment in the nature of a substitute for H.R. 3020 be adopted, and that it be used as a base text for purposes of any further amendments. Without objection. Hearing no objection, the request is agreed to, and the amendment in the nature of a substitute is adopted and will serve as the base text during our consideration of other amendments. I ask unanimous consent that the bill in its entirety be opened for amendments at this time.

Does any member seek recognition for the purpose of offering an amendment? Seeing no further amendments, the question is on passing and reporting the bill, H.R. 3020, as amended. All those in favor say eye. Aye. All those opposed say no. Aye. The ayes have it, and H.R. 3020 as amended is adopted and ordered reported. I ask unanimous consent that the Committee's authorized to correct sections, numbers punctuation, and cross-references, and to make other necessary technical and conforming corrections on the bills considered today. Without objection, so ordered. This markup is adjourned. Thank you.

[Whereupon, at 10:25 a.m., the Committee was adjourned.]

STATEMENT
of the
Honorable Nydia M. Velázquez, Chair
House Committee on Small Business
Markup of H.R. 2992, "The SBA Trade Programs Act of 2007," and H.R. 3020,
"The Microloan Amendments and Modernization Act of 2007"
July 19, 2007

I am pleased to call this morning's markup to order.

Today's markup addresses some very important issues for small firms – SBA's International Trade programs, and its Microloan Program. These programs have proved themselves to be beneficial for small businesses. International trade is a key part of our economic future and competition in the global marketplace will only increase in the years to come. Small businesses that generate and develop new products have shown that they can lead the way in building entire industries, if they are provided with basic assistance at the start. To a limited degree, SBA's trade initiatives have helped, but more needs to be done.

Another, equally important goal for the SBA is to provide direction and resources for those looking to start and grow their firms. In cases where there is reason to believe an entrepreneur could succeed, but lacks the credit history or training, the Microloan program has found a way to turn these aspiring business owners into employers. To accomplish these missions, the agency has specific programs that have been successful – but that have not been modernized to keep up with new economic challenges.

With that in mind, we are marking up two bills that address some small but frustrating barriers that have prevented small businesses from fully utilizing these SBA programs. By doing so, we will give entrepreneurs the tools they need to succeed, without unduly burdening taxpayers.

The bills we consider today increase the capacity of the SBA to provide specific, useful solutions to small businesses that want to startup or that have become sophisticated enough that they want to compete overseas. What these bills have in common is that they both address the need to update the SBA's programs, many of which have helped build a solid foundation for our future economic security. The changes we will make will help small firms overcome the current challenges that their businesses face.

Again, I want to give credit to all my colleagues on both sides of the aisle for working together to address these issues.

Small businesses deserve our efforts to listen to their problems and remove barriers. Such cooperation is good for all of us because it is these businesses that are the most innovative, that create new jobs, and produce half our income. They deserve our best efforts.

The progress we have made in addressing the needs of small businesses and in moving a significant number of bills introduced by both sides of the aisle is a testament to the Committee's hard work and cooperation. These firms continue to broadly support our work and do so again today.

I would like to specifically thank our Ranking Member Mr. Chabot, and his staff for the *Microloan Amendments and Modernization Act* that he introduced and which I strongly support. Also, thanks to Mr. Sestak, our vice Chairman, who with Mr. Hall from New York has introduced *The SBA Trade Programs Act of 2007*. But as significant as the work we have done to date is, there is still more to do. I look forward to our continuing collaboration to do what best serves our nation's small businesses.

Opening Statement for Committee Markup
Steve Chabot
Ranking Member
Committee on Small Business
United States House of Representatives
Washington, DC
July 19, 2007

As I have mentioned previously, the Committee has not carefully reexamined the Small Business Administration's (SBA) microloan and international trade programs in some time. Ensuring that America's exporters and smallest businesses have the resources they need from the SBA constitutes a critical function of this Committee. I would like to thank the Chairwoman for holding this important markup.

The first bill we are considering today is H.R. 3020, the "Microloan Amendments and Modernization Act." I introduced this bill along with the Chairwoman and Representatives Clarke, Cuellar, and Lipinski to make the microloan program more efficient. Given the testimony that the Committee has heard, the microloan program certainly represents value for the money. The microloan program is a far more cost effective mechanism for producing jobs than building roads in the Tongass National Forest.

Although modest in size, the bill accomplishes a great deal for microloan borrowers and intermediaries – the institutions that provide the loans and technical assistance. A brief synopsis of the bill's provisions will demonstrate the importance of this legislation.

Microlenders exist mainly because normal commercial lending institutions do not provide access to credit for those who are highly credit risky. One way to improve that is to have borrower's histories passed along to credit bureaus. I think having the SBA work with the intermediaries to do accomplish will benefit borrowers. Although I do not wish to offer an amendment at this time, I think it may be useful to consider, as the bill moves forward, to designate an intermediary in each federal region to handle the transmission of payment history to the credit bureaus.

The bill also enables the intermediaries to determine the length of credit that will be made available to the borrowers. Given the expertise of the intermediaries, it makes abundant sense for the determinations on the length of loans to rest with the intermediaries and borrowers. I want to emphasize that this change has no impact on the loan obligations of the intermediaries to the SBA so the change involves no risk to the federal treasury.

H.R. 3020 also raises the level of the average loan size in an intermediary's portfolio from \$7,500 to \$10,000. This level has not been changed since 1992 and an adjustment is appropriate to take account of inflation in the intervening 15 years.

The Small Business Administration rightly focuses on the number of small businesses that receive help from its entrepreneurial training partners. However, ensuring that only those individuals with the right aptitude start small businesses is as important as the provision of technical assistance to businesses that have been in existence for years. The bill recognizes the importance of this training and increases the amount of pre-loan training that intermediaries may provide.

H.R. 3020 also provides for an increase in the amount of technical assistance training that intermediaries can contract for from other sources. As the Committee heard in testimony from Professor Servon of the New School University, this will enable intermediaries to focus on those services that they are best able to perform.

Finally, the Committee heard from two different witnesses that the cap on interest rates should be removed. We also heard that a rise in interest rates will enable intermediaries to recoup more of their costs thereby reducing the amount of funds that they must raise from other sources. I would ask the Chairwoman to work with me as the bill moves through the legislative process to ensure that intermediaries have maximum flexibility to operate their loan programs with the elimination of the interest rate cap.

I know that the Chairwoman will be introducing an amendment in the nature of a substitute that simply adds the statutory authorization for the PRIME program to the Small Business Act and solely within the jurisdiction of this Committee. I fully support that amendment in the nature of a substitute.

The second bill that we are to address today is H.R. 2992. The bill recognizes the need for the SBA to increase its focus on the vital role that small businesses are playing to reduce America's trade deficit. There is no doubt that small businesses, especially manufacturers and providers of services, are often overlooked when it comes to the development and implementation of trade policy. By requiring the SBA to expand its trade outreach initiatives, H.R. 2992 will assist America's small business increase their competitiveness in a global economy. I also understand that the Chairwoman has an amendment in the nature of a substitute that I fully support because it ensures that the Administrator is properly coordinating activities with other agencies that have trade responsibilities and avoids even the possibility of running afoul of our obligation under international trade agreements.

Again I would like to thank the Chairwoman for her efforts to work in a bipartisan manner in crafting these bills. The pace has been hectic since the beginning of the year but the Committee has accomplished much as we near the August recess. I look forward to our return in September and continued efforts to work with the Chairwoman where can to help America's small businesses.